

1<sup>st</sup> February 2017

Mr Steve Masters  
Chief Executive Officer  
ElectraNet  
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ADELAIDE SA 5000

Dear Steve

Thank you for the email sent to me on 3 January by Ashley Manna seeking our thoughts on the RIT-T market modelling approach and assumptions report related to the increased interconnection of the SA transmission network to the eastern states.

At a high level, Kimberly-Clark Australia (KCA) has long been a supporter of limiting the ability of the SA region generators to exercise their market power to set prices in the SA region of the NEM and for them to be subject to greater competition. In 2008 KCA noted that, at times, there was an ability of the largest generator in the region (AGL's Torrens Island PS) to use its market power to set prices in the SA market at the market price cap. In the subsequent years, generator market power was again exhibited. Because of this market power being exercised, KCA was a strong supporter of the Major Energy Users rule change proposal to limit the exercise by generators of their market power when they have the opportunity.

Overall, KCA considers that competition amongst generators is an essential feature of ensuring the lowest price for electricity in the NEM is achieved. With the closure of Northern PS and the decision by Engie to limit the output of it Pelican Point PS, once again, KCA sees that competition amongst generators in the SA region will again be limited providing AGL's Torrens Island PS the opportunity to exercise its market power.

KCA has also noted that the large levels of intermittent generation in SA has led to times when there is a shortage of the synchronous generation essential for the stability of the power supply in SA and the very high reliance of the SA region on the one AC interconnector it has with Victoria – the loss of this interconnector in September cost KCA considerably even though we have our own generation capability.

With all this in mind, KCA is very supportive of the work ElectraNet is doing with regard to assessing the various options to assist in providing increased security of supply in the SA region and, specifically, evaluating options for greater interconnection. Our initial observation is that ElectraNet should, in addition to or as part of its assessment, be looking at options where the need and size of interconnection might be moderated by alternative means.

With these thoughts in mind, KCA makes the following observations:

- Interconnection with Victoria should reflect that Hazelwood PS is scheduled for closure in early 2017

- There is an observation that the need for greater interconnection will be driven by the retirement of gas fired generation. Equally, increased interconnection will displace more volume from synchronous generators, making them more likely to close due to an inability to cover fixed costs on reduced volumes. This raises the possibility that a decision might be made in the future that the market be changed from an energy-only market to a capacity market as applies in most other jurisdictions with a competitive electricity market. A capacity market would provide the system inertia that is lacking from the SA region. KCA considers that this option should be tested at least from a sensitivity point of view.
- Further sensitivity analysis should be undertaken with regard to forecast demand. KCA has noted that the current high prices for electricity and gas are resulting in many businesses operating close to (or even past) non-viability levels. In the current high price energy regime, both in SA and the eastern states, businesses are more likely to cease operations than to start up, especially those having high energy demands. This means that the likelihood of lower electricity demand is greater than higher levels of demand occurring except, perhaps, on occasional very hot days. KCA considers that the sensitivity analysis needs to address not only the volumes of electricity needed but also the increased “peakiness” that will result as the peak demands in the future will reflect the more temperature dependent residential and commercial loads as industrial loads reduce.
- The current high cost of gas is making gas fired synchronous generation uneconomic and providing very high priced electricity. If new gas enters the market, this could lead to a gas price reduction, but equally, increased oil prices could also lead to higher international gas prices further increasing domestic gas prices. Again, a sensitivity analysis should be carried out for higher and lower gas prices.
- September 28<sup>th</sup> 2016 provided a clear signal that the SA region was deficient in black start capability. A second interconnector provides a second credible source of power and the benefits of this should be assessed against the cost of providing within-region black start capability.
- KCA is aware that while upgrading the existing interconnector through Heywood might be the lowest cost option, it also recognises that as both circuits follow the same easement, it is credible that both circuits of the Heywood interconnector might have to be shut down at the same time (eg through bushfire, a storm taking down the towers, etc). Therefore KCA agrees with ElectraNet that an alternative route for any new interconnection is essential.
- We have a concern that assumptions in the modelling with regard to future costs of alternative technologies might be too conservative. For example,
  - The predicted cost of battery storage is perhaps not low enough as the forecast 50% reduction in cost is already being tested in 2017, let alone 2020.
  - Forecasts for the price for and volume from solar PV in annual market forecast reports consistently under estimate what actually occurs.

While the technology of the future might also address the issues facing the SA region market, we are also concerned that to achieve the needed alternative technological outcomes will effectively impose a state of doing nothing while we wait for new solutions. Any delay in addressing the problems seen now will result in considerable harm to all, including firms like KCA.

- Modelling should also take into account non-network options such as buying capacity from demand side approaches (eg through distributed storage devices in the home and business and demand response management). KCA considers that it would not be enough just to seek prices from the demand side or other sources of non-network solutions but ElectraNet could be active in seeking to provide subsidies (effectively a joint approach) as an alternative to the conventional approach to seeking network support offers. A way of assessing the viability of this approach would be through sensitivity analyses.
- Any assessment of the options should reflect that the SA region is ideally situated for the provision of high efficiency wind and solar operations. In order for Australia to meet its greenhouse gas commitments at the lowest possible cost will require renewable generation to operate in the most efficient locations. This means that the SA region would not only be a net importer when the wind drops and the sun is not shining, but an exporter of efficient low cost renewable generation to other regions. To be a significant exporter will require increased interconnection, so this aspect of being an efficient low cost provider of renewable energy for the NEM needs to be factored into the analysis.
- The options available for interconnection need to consider the march towards electricity being the staple for transportation. Line routes should consider running parallel to major railway lines both in terms of easements but also to assist in future rail electrification.

On balance, KCA is of the view that more interconnection with the eastern states is needed and needed as soon as possible. Such a second interconnector should follow an alternative route to the Heywood interconnector. In addition, the ElectraNet analysis should incorporate the points made above and that:

- An additional interconnector will increase the diversity of supply with regions of different intermittent generation patterns, accepting that SA and Victoria do share similar climatic condition.
- Torrens Island A PS at least will close in the near to medium term and Torrens island B PS could close in the medium term with both occurring before the economic life of a new interconnector is over
- There should not be a reliance on expectations that new technology will arrive in time to offset the losses of more synchronous generation in the SA region.

Should any part of this response require further explanation or clarification, please don't hesitate to contact the undersigned or our adviser on energy matters David Headberry at [davidheadberry@bigpond.com](mailto:davidheadberry@bigpond.com).

We understand that ElectraNet will be carrying out a detailed cost benefit analysis of the various options (including non-network options) and we are keen to assist ElectraNet in any way we can. Please ensure that we are included in any further consultation on this project as we are seeking to assist in developing an outcome that will reduce the costs of energy supplies in the SA region.

Yours sincerely

A handwritten signature in black ink, appearing to read "S. Whicker". The signature is written in a cursive style with a large initial "S".

**Scott Whicker**

Mill Manager